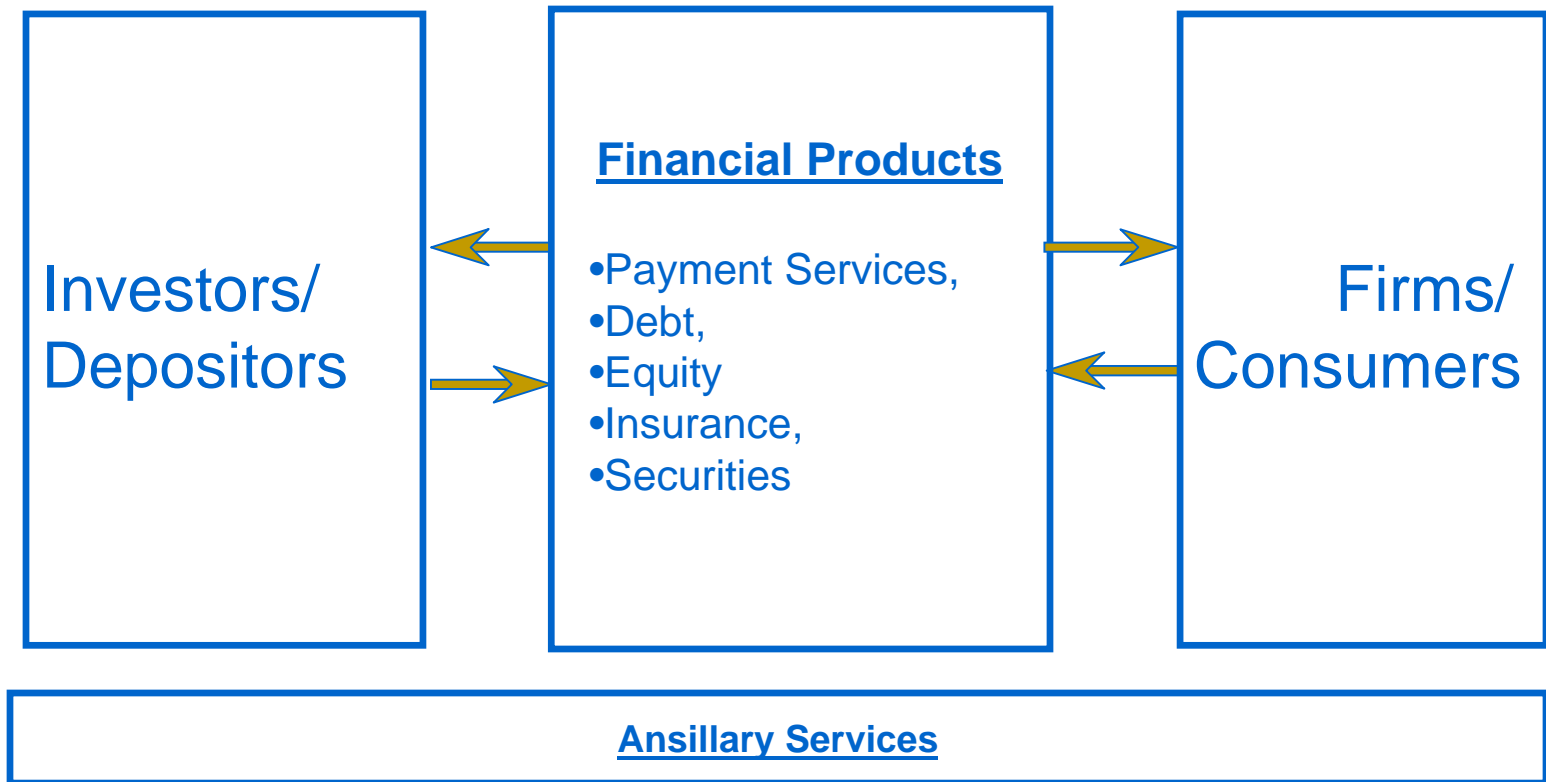


Financial Sector Definitions

Economic Growth Officers Training
Workshop - Financial Sector

Financial Products



FS Definitions: Debt vs. Equity

- DEBT financing– contractual obligation to repay corporate borrowing
- EQUITY financing – sale of shares that represent non-contractual claims to the residual cash flow of the firm

Payment Services

- Transfers
- Remittances
- Checks
- Debit Cards

Savings Products

- Savings Accounts
- Certificates of Deposit
- Bonds

Credit Products

- Over-Drafts
- Letters of Credit
- Leases
- Guarantees
- Short-Term Loans
- Long-Term Loans

Overdrafts and LOCs

- Overdrafts

- A document issued by a bank which guarantees the payment of a customer's drafts for a specified period and up to a specified amount.

- Letter of Credit

- A document issued by a bank which guarantees the payment of a customer's drafts for a specified period and up to a specified amount.

Leases and Guarantees

- Leases

- The renting out, for a specific period, of industrial equipment, facilities and capital goods (machines, technical installations, vehicles, etc). The manufacturer or in the case of financial leasing, special leasing companies act as principals.

- Guarantees

- The pledge to accept responsibility for an obligation if the entity with primary responsibility for the obligation does not meet it.

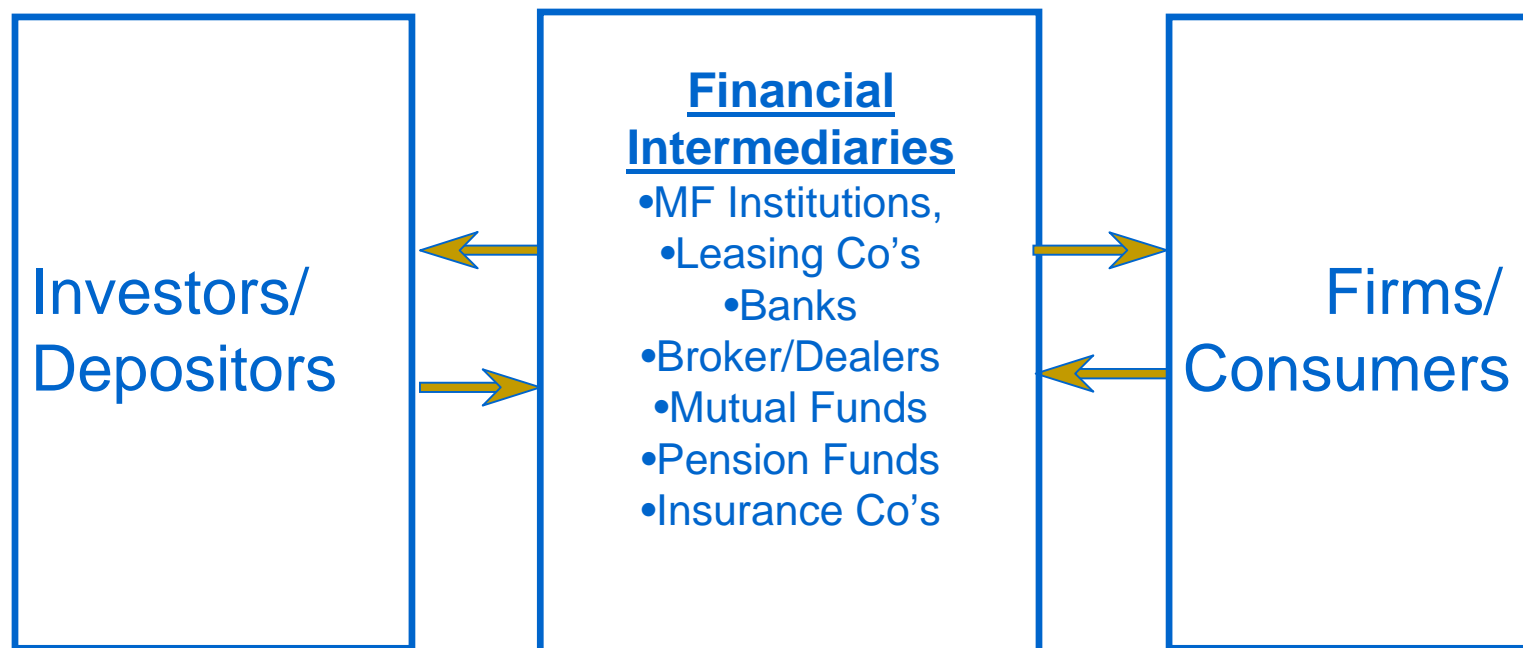
Short-Term & Long-Term Debt

- Short-Term
 - Working Capital Loans
 - Asset-based Lending (A secured loan in which the borrower provides as collateral any assets used in used in the conduct of his/her business).
- Long-Term
 - PPE
 - Mortgages

Off-Balance Sheet Banking & Sercuritisatio

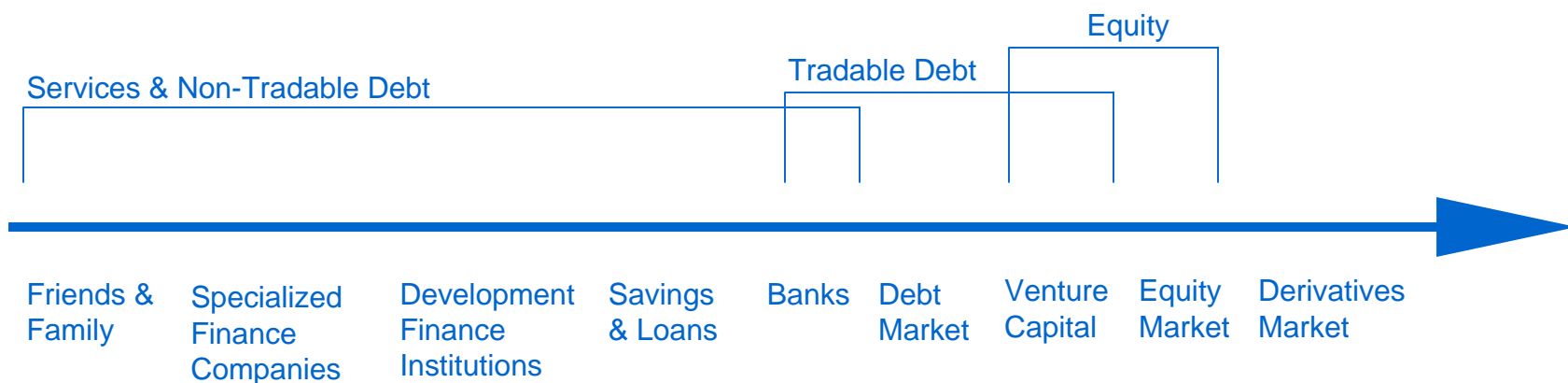
- **Off-Balance Sheet Banking:** Contingent Commitments that provide income, but do not appear on the Bank's Balance Sheets
 - Stand-by Letters of Credit
 - Unit Trusts (Mutual Funds)
 - Derivatives
- **Sercuritisatio**: The process of bundling traditional bank assets are sold to a trust or corporation, which in turn sells them as securities

Financial Institutions



Market Facilitators: Central Banks, Regulators, Credit Bureaus, Professional Services Providers, Stock Markets, Depositories

The Continuum of Financial Services



Institutions

- Microfinance Institutions
- Savings Houses
- Thrifts
- Leasing Companies
- Finance Companies
- Credit Unions
- Coops
- Banks

Coops & Credit Unions

- Coop
 - A group organized to develop, advance and protect an industry or regional market
- Credit Union
 - a nonprofit, cooperative financial institution owned and run by its members

Wholesale vs. Retail Banking

- Wholesale Banking
 - Interbanking system, with banks lending primarily to other banks; characterized by a small number of very large customers
- Retail Banks
 - Intrabanking system, with banks lending primarily to consumers/enterprises; characterized by a large number of smaller customers

Specialized vs. Universal Institutions

- Specialized Institutions
 - Niche institutions focused on a limited product line, or a limited, target market
- Universal Banking
 - The provision of most or all financial services under a single, largely unified banking structure

Key Issues - CAMEL Analysis

- Capital
 - Adequate to address risks in portfolio
 - Basle risk-based capital standards
- Assets
 - Lending based on sound financial analysis
 - Limits to concentrations
 - industry
 - geographical
 - single borrower or borrower group

Key Issues - CAMELS cont'd.

- Management
- Earnings
- Liquidity
- Sensitivity to Risk